How CDFIs are faring — Insights from the Fed’s 2023 CDFI Survey

September 7, 2023
3:00 to 4:00 PM ET
Views expressed during this session are those of the speakers and are intended for informational purposes.

They do not necessarily represent the views of Fed Communities or the Federal Reserve System.
Polling question
Sizing the CDFI Industry

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Jonathan Kivell, Director of Community Investments

The views expressed here are those of the presenters and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.
What are Community Development Financial Institutions?

Community-focused non-profit and for-profit entities that primarily provide financial services to low- and moderate-income households

Provide technical assistance and development services in addition to financial support

Certified by CDFI Fund, a subagency of the US Department of Treasury

“Specialized organizations that provide financial services in low-income communities and to people who lack access to financing”

CDFI Fund

Industry snapshot

1,487 CDFIs as of May 2023

40% increase by count since 2019

Over $450B in assets¹ as of 2023Q1

¹This total does not include assets held by holding companies or venture capital CDFIs
Loan funds comprise the biggest share of the industry by count.

Almost two-fifths of CDFIs are loan funds.

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Institutions</td>
<td>178</td>
<td>12%</td>
</tr>
<tr>
<td>Banks</td>
<td>198</td>
<td>13%</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>529</td>
<td>36%</td>
</tr>
<tr>
<td>Loan Funds</td>
<td>582</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations. Data from CDFI Fund.
Credit unions hold the most assets

Two thirds of industry assets held by credit unions

Not including assets held by holding companies or venture capital CDFIs

Credit unions hold 66% of all CDFI assets

Number of certified CDFIs

- Credit Unions: $300.1B (66%)
- Banks: $117.7B (26%)
- Loan Funds: $34.5B (8%)

Source: Authors’ calculations. Data from CDFI Fund, 2003Q1 call reports, 2020 Form 990s
The industry has grown in recent years

430 certified institutions in 2000, almost 1,500 today

40% growth in number since 2019 alone

The number of CDFIs has grown by nearly 40% since 2019

Number of certified CDFIs

Source: Authors’ calculations. Data from CDFI Fund
CDFI Credit Unions are leading growth in the industry

290 CDFI credit unions in 2019, 529 by May 2023
Cooperativas in Puerto Rico have fueled growth

Over 90 institutions in PR have been certified as CDFIs since 2019

They now hold around $11B in total assets
Assets have also grown considerably

CDFI bank and credit union assets grew by $265B in 5 years

67% of asset growth was due to new institutions becoming CDFIs.
The top CDFIs are primarily credit unions and banks

Almost a fifth of industry assets are held by the 10 largest institutions

The top 10 CDFIs held $79.6B in assets as of 2023Q1

Top 10 CDFIs by assets

Source: Authors' calculations. Data from 2023Q1 call reports. CDFIs identified via public certification list.
The largest CDFIs have grown considerably

Suncoast saw most absolute growth: $7.6B

The First Bank saw most percentage growth: 172%

On average, the largest CDFIs grew by $3.6B or 93% since 2019

Growth of top 10 CDFIs by assets

Source: Authors' calculations. Data from 2018-2023 call reports. CDFIs identified via public certification list. *2023 value is as of Q1, not year end
Thank you and how to reach us

Thank you to Fed Communities for hosting this webinar and inviting us to speak

We can be reached at

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2023 CDFI Survey Key Findings

Surekha Carpenter
Research Analyst, Regional and Community Analysis
Federal Reserve Bank of Richmond
The Federal Reserve’s CDFI Survey

The national CDFI Survey helps us better understand the reach and impact of CDFI activity and industry conditions.

Overview

• Support and input from the 12 regional Federal Reserve Banks, CDFI Fund, and other industry groups/leaders
• Biennial survey, fielded in 2019, 2021, 2023
  • Special COVID-19 Survey in 2020

2023 Survey

• Fielded April 24 – June 2
• This year’s survey asked about:
  • Demand for CDFIs’ products/services
  • Challenges meeting demand
  • Innovations and impact measurement
This year, we heard from 453 CDFIs

Certification Status of Respondent CDFIs (N = 453)

Certified CDFI 96%

29% of all CDFIs certified by the CDFI Fund.

Source: Federal Reserve 2023 CDFI Survey.
Our respondent sample is similar to the industry composition.

2023 CDFI Survey respondents (451):

- Loan Fund: 48%
- Credit Union: 35%
- Bank or Thrift: 10%
- Holding Company: 2%
- Venture Capital Fund: 2%

All certified CDFIs (1,492):

- Loan Fund: 39%
- Credit Union: 36%
- Bank or Thrift: 13%
- Holding Company: 11%
- Venture Capital Fund: 1%

Note: One venture capital fund responded to the 2023 survey (0% of the sample).

Source: Federal Reserve 2023 CDFI Survey.
What do respondent CDFIs primarily finance?

Top business lines include consumer finance and small business finance.

- Consumer: 39%
- Small business: 27%
- Residential real estate: 12%
- Commercial real estate: 10%
- Home purchase and improvement: 9%

5% of respondents reported a primary business line not shown above.

Source: Federal Reserve 2023 CDFI Survey.
Where do respondent CDFIs work?

This map shows the number of respondent CDFIs that serve each state.

Source: Federal Reserve 2023 CDFI Survey
What did we learn?

- Demand for CDFI products remains strong.
- CDFIs have mostly met demand.
- The biggest challenges to meeting demand varied across CDFIs.
- CDFIs have continued to innovate to address challenges.
- CDFIs also expressed a desire to expand impact measurement beyond their outputs.

Source: Federal Reserve 2023 CDFI Survey
For most CDFIs, demand for financial products has increased

In the past 12 months, did demand for your CDFI’s products increase, stay the same, or decrease compared to the prior year?

Percent of Respondents

Overall (N=430)
- Demand increased: 75%
- Demand stayed the same: 17%
- Demand decreased: 8%

Primary business line (N=440)
- Demand increased: 74%
- Demand stayed the same: 16%
- Demand decreased: 10%

Secondary business line (N=355)
- Demand increased: 61%
- Demand stayed the same: 25%
- Demand decreased: 14%

Source: Federal Reserve 2023 CDFI Survey
CDFIs have mostly met demand

Overall, 40% **fully** met demand in the last year

Another 42% **mostly** met demand

To what extent was your CDFI able to meet demand for products in the past 12 months?

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**Percent of respondents by CDFI type**

- **Loan Funds (N=189)**
  - Fully able to meet demand: 7%
  - Mostly able to meet demand: 19%
  - Moderately able to meet demand: 35%
  - Somewhat able to meet demand: 47%

- **Credit Unions (N=131)**
  - Fully able to meet demand: 6%
  - Mostly able to meet demand: 44%
  - Moderately able to meet demand: 47%
  - Somewhat able to meet demand: 4%

- **Banks/Thrifts (N=37)**
  - Fully able to meet demand: 51%
  - Mostly able to meet demand: 46%
  - Moderately able to meet demand: 9%
  - Somewhat able to meet demand: 4%

Source: Federal Reserve 2023 CDFI Survey
Factors limiting CDFIs’ ability to meet demand

Source: Federal Reserve 2023 CDFI Survey
Top challenges varied by CDFI type

**LOAN FUNDS**

Percent of Loan Fund Respondents

- Lending Capital (N=119):
  - Significant factor: 58%
  - Somewhat of a factor: 29%
  - Other: 13%

- Operational Funding (N=116):
  - Significant factor: 32%
  - Somewhat of a factor: 45%
  - Other: 13%

- Staffing (N=117):
  - Significant factor: 28%
  - Somewhat of a factor: 44%
  - Other: 14%

- Technology (N=113):
  - Significant factor: 14%
  - Somewhat of a factor: 42%
  - Other: 43%

- Borrower Qualifications (N=114):
  - Significant factor: 13%
  - Somewhat of a factor: 43%
  - Other: 43%

**CREDIT UNIONS**

Percent of Credit Union Respondents

- Staffing (N=69):
  - Significant factor: 43%
  - Somewhat of a factor: 38%
  - Other: 20%

- Borrower Qualifications (N=61):
  - Significant factor: 36%
  - Somewhat of a factor: 41%
  - Other: 23%

- Technology (N=65):
  - Significant factor: 32%
  - Somewhat of a factor: 45%
  - Other: 23%

- Operational Funding (N=66):
  - Significant factor: 32%
  - Somewhat of a factor: 30%
  - Other: 38%

- Lending Capital (N=64):
  - Significant factor: 31%
  - Somewhat of a factor: 36%
  - Other: 33%

Source: Federal Reserve 2023 CDFI Survey
Most frequently reported lending capital challenges

Percent of respondents that said lending capital challenges limit their ability to meet demand (N=171)

- Cost of capital: 67%
- Insufficient equity capital: 54%
- Insufficient debt capital: 39%
- Lending capital is restricted: 38%

Source: Federal Reserve 2023 CDFI Survey.
Most frequently reported staffing challenges

Percent of respondents that said staffing challenges limit their ability to meet demand (N=172)

- Lack of qualified candidates: 67%
- Inability to offer competitive compensation: 57%
- Staff leaving voluntarily for higher-paid positions: 51%

Source: Federal Reserve 2023 CDFI Survey
In the face of challenges, CDFIs are innovating

Respondents detailed their innovative products, practices, and partnerships.

- Rapid deployment of COVID-19 relief funding
- Building and leveraging relationships
- Specialized or shared staff
- Online access and integration
- New products for immigrant, low-credit, and other underserved customers
- Scaling development services

Source: Federal Reserve 2023 CDFI Survey
Respondents want to expand the metrics they collect

What output or outcome metrics does your CDFI track for its products and services?
Percent of respondents interested in tracking metric

- Number of clients/customers (N=432) 99%
- Dollar value of deployed products (N=414) 93%
- Client/customer or community stories (N=367) 82%
- Client/customer demographics (N=369) 81%
- Projected jobs created or retained (N=275) 74%
- Financial performance of clients/customers (N=370) 64%
- Actual jobs created or retained (N=282) 61%
- Other (N=82) 57%
- Job quality (N=166) 37%

Source: Federal Reserve 2023 CDFI Survey
Looking ahead

- CDFIs expect further increases in demand
- Many CDFIs are optimistic about being able to meet future demand
- Respondents were clear on the biggest difference makers:

  - Additional funding for lending
  - Need for operation-specific capital
  - Additional resources for hiring and training staff

Source: Federal Reserve 2023 CDFI Survey
Thank you!

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Read the full 2023 Key Findings Report:

2023 CDFI Survey Key Findings | Federal Reserve (fedcommunities.org)

Also available for download:
Survey questionnaire
Data appendix
National CDFI directory
Charly van Dijk
Senior Advisor, Community and Economic Development Engagement
Federal Reserve Bank of Atlanta
Future Research: CDFI Loan Funds, Capital Absorption, and Financial Leverage

Community and Economic Development Research Department

Views expressed are my own, and not necessarily those of the Federal Reserve Bank of Atlanta, or the Federal Reserve System.

Charlene “Charly” van Dijk
Senior Advisor, CED Engagement
Miami Branch
Why CDFIs Are Important

“[The] pandemic and economic disruption have laid bare and exacerbated deep-seated disparities along racial, geographic, occupational, and gender lines. Throughout this crisis, I have seen what CDFIs do best, put their clients first and meet communities where they are, providing advisory services and products when they are sorely needed.”

Source: Opportunity Finance Network 2020 Conference

Raphael Bostic
President & CEO

Federal Reserve Bank of Atlanta
Community and Economic Development at the Atlanta Fed

Mission

Support the Central Bank’s mandate of stable prices and maximum employment by working to improve the economic mobility and resilience of people and places for a healthy economy.

frbatlanta.org/community-development
The Continuum

Strategies for facilitating a pipeline of successful community projects that enable organizations to borrow.

Get Money
Raising capital and managing the CDFI business.

Deploy Money
Engineering innovative, flexible financial products and deploying them in all communities—urban, suburban, and rural.

Create Programs
Organizing capital, subsidy, underwriting rules, technical assistance and development tools.

Share Knowledge
Sharing lessons learned and educating stakeholders—through research—about market and sector needs.

Connect with Community
Connecting community-based organizations with CDFI, government, and peer resources that can build capacity and lead to greater impact.

Build Organizational & Financial Capacity
Creating capacity building opportunities surrounding organizational goals, financial health, and other topics.

Organize & Empower Communities
Establishing calls to action driven by community-based organizations.

Source: Federal Reserve Bank of St. Louis
Net Assets for CDFI loan funds can be a lever

Net Asset Ratio = \( \frac{\text{Net Assets} \ (\text{Total Assets} - \text{Total Liabilities})}{\text{Total Assets}} \)

“CDFI loan funds face a common capitalization challenge as they seek to grow—they must raise net assets to enable the additional debt financing needed to support an expanding portfolio.”

Source: Federal Reserve Bank of San Francisco, Community Development Innovation Review
When Leverage is Done Right

SOME PROGRAMS LEVERAGE AS MUCH AS $10 FOR EVERY $1 INVESTED BY THE CDFI FUND.

WITH 10X THE INVESTMENT, we have an opportunity to make 10X THE IMPACT in communities nationwide.

Source: CDFI Fund
When Leverage is Done Wrong

what are other words for overleveraged?

bankrupt, insolvent, failed, ruined, in debt, owing money, in the red, in arrears, in receivership, bust
What is an “appropriate” level of leverage for CDFIs? It depends!

<table>
<thead>
<tr>
<th>CDFI Banks</th>
<th>CDFI Credit Unions</th>
<th>“Non-regulated” CDFIs (VC &amp; Loan Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Leverage ratios determined by Basel Accords and financial banking regulators.</td>
<td>• Determined by NCUA, the federal regulator of credit unions.</td>
<td>• Individual funders determine ceiling via financial covenants.</td>
</tr>
<tr>
<td>• Apply to ALL banks, CDFI or not.</td>
<td>• Helps create safety and soundness in the financial system.</td>
<td>• Measured via ratios.</td>
</tr>
<tr>
<td>• Thresholds depend on size of institution.</td>
<td></td>
<td>• CDFI Fund MPS ratio and typical industry standard is a <strong>Minimum 20% Net Asset Ratio</strong> for highest performing nonprofit CDFIs.*</td>
</tr>
<tr>
<td>• Helps create safety and soundness in the financial system.</td>
<td></td>
<td>(Source: CDFI Fund)</td>
</tr>
</tbody>
</table>

*Individual funders determine their own ratios via covenants.
Net Asset Ratios, a proxy for understanding CDFI industry leverage

<table>
<thead>
<tr>
<th>MAPS Ratio</th>
<th>Bank/Thrift</th>
<th>Credit Union</th>
<th>Loan Fund</th>
<th>Venture Capital Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
<td>N</td>
<td>Mean</td>
<td>N</td>
</tr>
<tr>
<td>Self-Sufficiency Ratio</td>
<td>121</td>
<td>1.0</td>
<td>242</td>
<td>1.7</td>
<td>470</td>
</tr>
<tr>
<td>Net Assets Ratio</td>
<td>122</td>
<td>0.1</td>
<td>242</td>
<td>0.2</td>
<td>473</td>
</tr>
<tr>
<td>Portfolio at Risk Ratio</td>
<td>122</td>
<td>0.01</td>
<td>242</td>
<td>0.03</td>
<td>464</td>
</tr>
<tr>
<td>Deployment Ratio</td>
<td>115</td>
<td>7.6</td>
<td>216</td>
<td>8.5</td>
<td>419</td>
</tr>
</tbody>
</table>

Source: 2019 Annual Certification Report (ACR)
Note: Self-Sufficiency ratio is earned revenue/operating expenses. Net Assets ratio is (Total Assets – Total Liabilities)/Total Assets. Portfolio at Risk (PAR) ratio is Nonperforming Assets/Total Loan Portfolio. Deployment ratio is (Total Loan Portfolio + Total Equity Investment Portfolio)/Total Financing Capital.

Source: CDFI Fund 2020 Annual Certification Report Analysis
Future FRB Atlanta CED research using the CDFI Survey & CDFI Fund Data

Approximately, what percent of your balance sheet is debt?

Source: 2023 Federal Reserve CDFI Survey
Want to learn more about how to manage Net Assets and CDFI growth?

VIEW THE RESOURCE BANKS

Access for All: Expanding CDFI Im...
Building Native CDFIs' Sustainabi...
CDFI Capitalization
Expanding CDFI Coverage in Unders...

Financing Community Health Center...
Financing Healthy Food Options...
Foreclosure Solutions
Innovations in Small Business Len...

Source: CDFI Fund Capacity Building Initiative Resource Banks
Connect with us @Atlanta Fed

Charly van Dijk
Charlene.vandijk@atl.frb.org
Read the reports from today’s presentation

Sizing the CDFI Market: Understanding Industry Growth | Federal Reserve Bank of New York:

2023 CDFI Survey Key Findings | Federal Reserve:
https://fedcommunities.org/data/2023-cdfi-survey-findings/
Closing remarks and requests

• Complete the post-event survey

• Visit [www.fedcommunities.org](http://www.fedcommunities.org) for more Fed resources on community development topics

• Follow Fed Communities on social media. We’re on LinkedIn, Instagram, Facebook, and Twitter (X)

• Subscribe to the Fed Communities newsletter at fedcommunities.org/About Us/Subscribe

• Mark your calendars for October 12, 2023, and plan to join us for the next Connecting Communities webinar on the Benefits Cliff. Registration will be open soon!
Thank you for joining us!